

**CareSource Kentucky Co.
Individual Comprehensive Medical Business
Rate Filing Justification
Part III - Actuarial Memorandum and Certification**

OVERVIEW

This document contains the Part III Actuarial Memorandum for CareSource Kentucky Co.'s (CKY's) individual comprehensive medical block of business, effective January 1, 2016. These individual rates are guaranteed through December 31, 2016. These products are offered on the Individual Exchange and are available for sale off the exchange. This Actuarial Memorandum is submitted in conjunction with the Part I Unified Rate Review Template (URRT).

The purpose of the Actuarial Memorandum is to provide certain information related to the submission of premium rate filings, including support for the values entered in the Part I URRT (which supports compliance with the market rating rules and reasonableness of applicable rate increases). This memorandum may not be appropriate for other purposes.

The information in this Actuarial Memorandum has been prepared for the use of CKY. I understand that this Actuarial Memorandum will be provided to the Kentucky Department of Insurance (DOI), the Center for Consumer Information and Insurance Oversight (CCIO), and their subcontractors to assist in the review of CKY's rate filing process. I understand that the information provided may be considered public documents, and as such, may be subject to disclosure to other third parties. Milliman makes no representations or warranties regarding the contents of this Actuarial Memorandum or rate filing to third parties. Likewise, third parties are to place no reliance upon this Actuarial Memorandum or rate filing prepared for CKY by Milliman that would create any legal duty under any theory of law by Milliman to any third party.

The results are actuarial projections. Actual experience will differ for a number of reasons including, but not necessarily limited to, population changes, claims experience, and random deviations from assumptions.

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I. GENERAL INFORMATION

Company Identifying Information

Company Legal Name:	CareSource Kentucky, Co.
State:	Kentucky
HIOS Issuer ID:	45636
Market:	Individual
Effective Date:	January 1, 2016

Company Contact Information

Primary Contact Name:	Scott Brockman
Primary Contact Telephone Number:	(937) 531-2626
Primary Contact Email-Address:	Scott.Brockman@caresource.com

Consultant Contact Information

Primary Contact Name:	Erik C. Huth
Primary Contact Telephone Number:	(262) 796-3468
Primary Contact Email-Address:	erik.huth@milliman.com

II. PROPOSED RATE INCREASE(S)

This is a rate change filing for 12 CKY plans and an initial rate filing for eight new CKY plans. This memorandum addresses the rate increase requested for CKY's individual HMO product, which impacts 1,405 members. The rate increase being requested for CKY's individual HMO product is 14.2% in aggregate, which reflects 2015 enrollment by plan. The requested rate increase varies by plan within the individual HMO product with a minimum rate change of an 18.8% decrease and a maximum rate change of a 20.4% increase. These plans are Affordable Care Act (ACA) compliant plan rates. Exhibit 1 displays the rate change by plan.

Reason for Rate Change

The following factors drive the 2015 to 2016 rate change:

- Base Experience – I changed CKY's projection methodology from last year. I estimated CKY's 2015 manual rate based on CareSource's (CAS') Ohio Medicaid 2013 experience and assumptions for the 2014 Kentucky commercial ACA market. I estimated the CKY's 2016 manual rate based on CAS' actual 2014 Ohio commercial ACA experience adjusted for market differences between Ohio and Kentucky.



- Federal Transitional Reinsurance Program – The federal reinsurance program reinsurance payments are expected to decrease from 2015 to 2016 because the attachment point has increased and the coinsurance percentage has decreased, but is dependent on the cost of the experience. This results in a minimal change to incurred claims from 2015 to 2016.
- Morbidity – The morbidity load used to adjust the base experience forward to 2016 changed from 2015 to 2016 as the base experience now reflects ACA provisions and the associated morbidity.

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- Administrative costs, taxes and fees, profit, and risk loads – The total retention changed from 2015 to 2016 based on revised administrative expense and profit assumptions and a better model of Kentucky's premium tax.
- Other Factors – Other Factors include changes in plan benefits, provider reimbursement changes, and adjustments to account for expected changes in drug experience.

There are a number of 2015 to 2016 plan-specific changes that cause the rate increase to vary by plan, including changes in plan benefits and changes to provider reimbursements. These changes are applied at the benefit plan level resulting in different rate increases by plan.

Rate Change History

These products were first introduced in 2015, and thus, have no rate increases prior to 2015.

III. EXPERIENCE PERIOD PREMIUM AND CLAIMS

There is no historical experience illustrated in Worksheet 1, Section I of the URRT since CKY did not sell individual medical plans in Kentucky in the experience period (i.e., not until January 1, 2015).

Claims Paid Through Date

Not applicable.

Premiums (Net of MLR Rebate) in Experience Period

Not applicable.

Allowed and Paid Claims Incurred During the Experience Period

Not applicable.

IV. BENEFIT CATEGORIES IN WORKSHEET 1, SECTION II OF THE URRT

Experience: There is no experience period claim information by benefit category since CKY did not sell individual medical plans in Kentucky in 2014.

Credibility Manual: I categorized utilization and cost information by benefit using CAS' 2016 projected Ohio claims distribution by major service category. CKY's projected 2016 fee-for-service medical claims are included by service category:

- Inpatient Hospital (facility charges with an overnight stay)
- Outpatient Hospital (facility charges without an overnight stay)
- Professional (services billed separately from facility claims associated with a given inpatient hospital stay or outpatient procedure)
- Other Medical (with units measured as a mix of visits, cases, procedures, etc.)

CKY's projected prescription drug claims are included in the "Prescription Drug" line in the URRT with a benefit category of "Prescriptions".

It does not appear that utilization counts in the actual data are appropriate (for example, "hospital days" appears to include counts of other inpatient services). I used Milliman's commercial *Health Cost Guidelines (HCGs)* to develop the estimates of utilization per 1,000 and average cost per services, and adjusted the utilization so the product of the two equal the service category's PMPM.

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V. PROJECTION FACTORS APPLIED TO EXPERIENCE

There are no experience projection factors in Worksheet 1, Section II of the URRT since CKY did not sell individual medical plans in the experience period.

Changes in the Morbidity of the Population Insured

Not applicable.

Changes in Benefits

Not applicable.

Changes in Demographics

Not applicable.

Other Adjustments

Not applicable.

Trend Factors

Not applicable.

VI. CREDIBILITY MANUAL RATE DEVELOPMENT

CKY's rates are based 100% on manual rates since CKY did not sell individual medical plans in Kentucky in 2014 and has no credible experience.

Source and Appropriateness of Experience Data Used

Source

The credibility manual rate utilization and unit costs shown in Worksheet 1, Section II of the URRT are based on CAS' 2016 projected Ohio individual experience with adjustments for differences in the KY and OH exchange markets.

Appropriateness

CAS' 2016 projected Ohio index rate has been adjusted for differences in demographic mix, benefits, state-specific morbidity, area factors, and provider reimbursement level between CAS' 2016 projected Ohio experience and CKY's 2016 Kentucky assumptions. Exhibit 2 outlines the factors used to convert the 2016 Ohio projected index rate to a 2016 Kentucky projected index rate.

Adjustments Made to the Data

Projected Enrollment

I project CKY's 2016 Kentucky enrollment to be similar to the enrollment mix by metal found in the Kentucky Exchange enrollment in the Assistant Secretary for Planning and Evaluation (ASPE) March 1, 2015 report. Table 1 shows CKY's assumed 2016 individual enrollment by plan.

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Table 1 CareSource Kentucky Co. Projected 2016 Enrollment		
	Enrollment	% of Total
Gold	974	14.1%
Silver	3,574	51.6%
Bronze	2,265	32.7%
Catastrophic	114	1.7%
Total	6,927	100.0%

Changes in Demographics

I adjusted CAS' 2016 Ohio index rate to reflect the difference between CAS' projected 2016 Ohio enrollment and the assumed CKY's 2016 Kentucky enrollment. I assumed CKY's enrollment would be entirely from Exchange sales, and be split by metal, age, and gender similar to the actual Kentucky statewide Exchange enrollment from the ASPE report.

Exhibit 2 displays this impact as a 2.8% decrease to the projected Kentucky index rate.

Changes in the Morbidity of the Population Insured

Step 1: I estimated Kentucky's current total population and their associated health status by insured status. The statewide market estimates are based on the population at the end of 2013, stratified by current insurance status, income relative to FPL, and health status. The Current Population Survey (CPS) from the U.S. Census provides state-level data for each of these strata. I adjusted the raw CPS data after reviewing the following additional data sources:

- Carriers' annual statutory financial filings provided to the NAIC. The filings contain reliable sizes of the individual and fully insured group markets.
- The Medicaid Statistical Information System (MSIS) (available through the Department of Health and Human Services), which provides reliable data on Medicaid enrollment in Kentucky.

Step 2: I projected the number of individuals that will purchase individual insurance in the Exchange and non-Exchange markets (i.e., "take-up" rates) from all population categories. My Exchange take-up rate assumptions are primarily driven by a person's current insurance status (i.e., insured or uninsured), limited incentives to purchase coverage when healthy (i.e., the least healthy members will be the first to apply for coverage), and the federal subsidy available (if any) if the member enrolls in an Exchange plan. This resulted in a post-ACA population projection by market and Exchange status. I estimate 2016 average claim costs across the Kentucky individual market will [REDACTED] approximately [REDACTED] vs. the pre-ACA individual market based on a combination of current population data, various industry studies, and proprietary data.

Step 3: I adjusted CAS' 2016 Ohio index rate by the difference of the 2016 projected Ohio morbidity level and CKY's projected 2016 Kentucky morbidity level. Exhibit 3 displays the Kentucky and Ohio morbidity assumptions. Exhibit 2 displays this impact as a [REDACTED] to the projected Kentucky index rate.

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Changes in Benefits

I adjusted CAS' 2016 Ohio index rate by the difference in CAS' projected 2016 Ohio plan design behavior factors relative to CKY's 2016 Kentucky plan design behavior factors. The impact on the average utilization of services due to differences in average cost sharing requirements developed in the Ohio projections vs. the 2016 Kentucky projection period was reflected in the 2016 rate development.

Exhibit 2 displays this impact as [REDACTED] to the projected Kentucky index rate for Plan Mix Factors.

Other Adjustments

CKY has negotiated 2016 Kentucky provider discount levels as a percent of Medicare different than the percent of Medicare reimbursement levels underlying the 2016 projected Ohio pricing. I adjusted CKY's 2016 index rate for both the difference between the provider reimbursement levels as a percent of Medicare and the average Medicare charge fee between CAS' Ohio rating areas and CKY's Kentucky rating areas. I also adjusted the CKY's 2016 index rate for the area utilization relativity between Ohio and Kentucky based on Milliman's HCGs. [REDACTED]

Based on area differences in CareSource's emerging Medicaid prescription drug experience between Ohio and Kentucky, I adjusted the 2016 Ohio commercial index rate by [REDACTED].

Trend Factors

[REDACTED]. Since I priced Kentucky starting with the 2016 Ohio index rate, the trend assumption underlying the Ohio pricing is the same for Kentucky. I developed the trend assumptions with input from CKY and general industry reports regarding recent trends in medical inflation.

Table 2 CareSource Kentucky Co. 2014 to 2016 Annual Trend			
Service Category	Utilization Trend	Cost Trend	Total Trend
Inpatient Hospital	[REDACTED]	[REDACTED]	[REDACTED]
Outpatient Hospital	[REDACTED]	[REDACTED]	[REDACTED]
Professional	[REDACTED]	[REDACTED]	[REDACTED]
Other Medical	[REDACTED]	[REDACTED]	[REDACTED]
Capitation	[REDACTED]	[REDACTED]	[REDACTED]
Prescription Drug	[REDACTED]	[REDACTED]	[REDACTED]
Total	[REDACTED]	[REDACTED]	[REDACTED]

Inclusion of Capitation Payments

There are no capitation payments.

VII. CREDIBILITY OF EXPERIENCE

CKY's rates are based 100% on manual rates since CKY did not sell individual medical plans in Kentucky in the experience period.

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VIII. PAID TO ALLOWED RATIO

The Paid to Allowed ratio shown in Worksheet 1, Section III of the URRT was developed by calculating the average ratio of Paid (i.e., after member cost sharing) to Allowed (i.e., before member cost sharing) claims for each plan, weighted by projected member months by plan as shown in Appendix A.

I priced 2016 plans using an internal Milliman cost relativity model based on Milliman's *HCGs* to calculate the paid to allowed ratios. This proprietary model is updated annually and developed using experience of over 40 million lives. The model estimates actuarial equivalent relative values of different benefit plans using estimated medical costs calibrated to CKY (including service area, provider reimbursement, degree of health care management, etc.). Appendix A also displays the average paid to allowed by metal level. Plans' paid to allowed values differ from the AV Calculator values but the two values should be fairly consistent for each metal level.

IX. RISK ADJUSTMENT AND REINSURANCE

Experience Period Risk Adjustment and Reinsurance Adjustments PMPM

Since CKY did not sell any policies in the Kentucky Individual market prior to 2015, there are no risk adjustment or reinsurance adjustments included in the experience period.

Projected Risk Adjustments PMPM

I assumed CKY's risk scores will mirror the statewide risk score, and assumed no risk adjustment receivable apart from the \$0.15 PMPM risk adjustment administrative fee.

Risk transfer payments are estimated at the plan level using the published transfer payment formula, taking into account CKY's expected differences from the state average. The composite risk adjustment transfer payments are allocated proportionally to all plans based on plan premiums. CKY projects a zero net risk adjustment transfer.

Projected ACA Reinsurance Recoveries Net of Reinsurance Premium

Reinsurance recoveries were estimated at the plan level. The Milliman *HCGs*, combined with the projected allowed charges by plan, were used to estimate a claims probability distribution for each plan. The out-of-pocket maximum was added to the attachment point to estimate the carrier's paid claims obligation in excess of \$90,000, consistent with the methodology discussed in the 2015 Benefit and Payment Parameters. Similarly, the out-of-pocket maximum was added to the reinsurance cap to estimate the carrier's paid claims obligations in excess of \$250,000. A coinsurance rate of 50% was applied to the difference to estimate the expected annual reinsurance recovery. This amount was divided by 12 to obtain an expected monthly reinsurance recovery of \$9.05 PMPM.

Exhibit 4 displays the development of my estimated \$6.80 PMPM ACA reinsurance recoveries which is net of the \$2.25 PMPM reinsurance contribution.

X. NON-BENEFIT EXPENSES AND PROFIT AND RISK

Exhibit 5 displays the overall net expense factor.

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Administrative Expense Load

Table 3 displays my estimated administrative expenses of \$25.20 PMPM. This estimate is entered as a percent of premium that does not vary by plan in Worksheet 1, Section III of the URRT. It is based on CKY's estimate of 2016 projected expenses. I adjusted the budget amount for ACA implementation expenses. Corporate overhead was allocated to CKY's Kentucky individual line of business. This amount does not include any profit, risk load, taxes, or assessments and is shown below in Table 3.

Table 3 CareSource Kentucky Co. Summary of Administrative Expenses		
Description	Taxes and Fees	
	PMPM	% of Premium
General Administrative Expenses		
Commission		
Commercial Reinsurance Recoveries		
Commercial Reinsurance Premiums		
Total		

Target Contribution to Surplus (a/k/a Profit) and Risk Margin

I built in [REDACTED] of premium for a post-tax target contribution to surplus. I did not build in any additional loads for profit or risk. I considered the uncertainty of estimated claims in the 2016 market and federal MLR requirements in the target. Exhibit 6 shows the development of this load. [REDACTED]

Taxes and Fees

Table 4 displays the projected taxes and fees that may be subtracted from premiums when calculating CKY's loss ratio for MLR purposes (with the exception of the \$0.15 risk adjustment fee and the \$2.25 federal reinsurance fee that is shown net of risk adjustment and reinsurance recoveries, respectively, and not in this section). The composite value is displayed in Worksheet 1, Section III of the URRT.

Table 4 CareSource Kentucky Co. Summary of Taxes and Fees		
Description	Taxes and Fees	
	PMPM	% of Premium
State Premium Tax		
Patient-Centered Outcomes Research Institute Fee		
Health Insurer Fee		
Federal Income Tax		
Kentucky Exchange Fee		
Total		

XI. PROJECTED LOSS RATIO

The projected loss ratio based on federally prescribed MLR methodology, excluding allowable adjustments, such as for credibility, quality improvement expenses, and high deductible is [REDACTED].

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XII. SINGLE RISK POOL

CKY has no 2014 Kentucky experience. A manual rate is used to develop the projected allowed experience claims with 100% credibility.

XIII. INDEX RATE

Index Rate Development

The index rate represents the estimated total combined allowed PMPM claims of all non-grandfathered plans within CKY's individual Kentucky market. The index rate has not been adjusted for risk adjustment transfers, reinsurance fees / recoveries, or Exchange fees.

I do not include an index rate for the experience period as CKY did not sell Individual policies in Kentucky prior to 2015.

I developed the 2016 projected index rate from the 2016 Kentucky manual rate allowed PMPM. The projected index rate is shown in Worksheet 1, Section II of the URRT.

Section VI (Credibility Manual Rate Development) describes the development of the projected index rate. CKY has no inforce and, therefore, no transitional plan members are included in the projected index rate. The projected index rate covers a 12-month period for individuals effective January 1, 2016 through December 31, 2016. As described in Section VI, the projected index rate reflects the anticipated claim level of the projection period with respect to trend, benefits, and demographics.

XIV. MARKET-ADJUSTED INDEX RATE

The market-adjusted index rate is calculated as the index rate adjusted for all allowable market-wide modifiers defined under the market rating rules in 45 CFR Part 156, §156.80(d)(1). I projected exchange fees as 0.0% of premium (Section 10. Non-Benefit Expenses and Profit and Risk), reinsurance recoveries as [REDACTED] PMPM, less reinsurance premiums of \$2.25 PMPM, and a risk adjustment transfer payment of \$0.15 PMPM (Section 9. Risk Adjustment and Reinsurance). Appendix A outlines the development of the Paid to Allowed ratio. Table 5 shows the development of the market-adjusted index rate.

Table 5	
CareSource Kentucky Co.	
Market Adjusted Index Rate Development	
Index Rate	[REDACTED]
(a) Net Risk Adjustment	[REDACTED]
(b) Net Transitional Reinsurance	[REDACTED]
(c) Exchange Fee	[REDACTED]
Sum of Market Reform Adjustments	[REDACTED]
Paid to Allowed Average Factor	[REDACTED]
Market Adjustments (Allowed Basis)	[REDACTED]
Market-Adjusted Index Rate	[REDACTED]

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PLAN-ADJUSTED INDEX RATE

The market-adjusted index rate is adjusted to compute the plan-adjusted index rates using the following allowable adjustments:

Actuarial Value and Cost Sharing Adjustment

- The CMS Actuarial Value Calculator was used to determine the metal level actuarial value for each plan.
- The pricing actuarial value and cost-sharing adjustment was developed utilizing Milliman's 2014 HCGs. Relativities between plans were based on the differences in cost and utilization for varying levels of cost-sharing.

Provider Network, Delivery System, and Utilization Management Adjustment

CareSource provided their estimated provider network reimbursement rates based on their contractually negotiated reimbursement arrangements to date. Negotiations are ongoing, and contractual provider reimbursements may vary for the ones I assumed in my pricing. Section VI. Credibility Manual Rate Development, Other Adjustments provides additional details.

Adjustment for Benefits in Addition to the EHBs

I made no adjustment for non-EHBs as CKY includes no non-EHBs in its 2016 plans.

Adjustment for Tobacco Premium Differential

CKY applies a tobacco premium load for users age 21 and over that varies by age. I determined this rate was reasonable as it resulted in a similar weighted average premium adjustment compared to the projected tobacco morbidity surcharge. Exhibit 8 displays the development of the tobacco adjustment factor. The AV & Cost Sharing factors include a 1.8% reduction to reflect non-tobacco factors only.

Adjustment for Distribution and Administrative Costs

Distribution and administrative costs were developed and applied to each plan as a mix of "percent of premium", "percent of claim", and PMPM bases.

The development of the plan-adjusted index rates are shown in Appendix B.

XV. CALIBRATION

The approximate average age of the single risk pool to equal the correct age calibration factor is 48. The age curve calibration is applied to all plans. I composited the CMS-approved premium factors by the projected membership at each age based on the March 1, 2014 ASPE Summary. I rounded the weighted average premium factor to the nearest table value to determine the average rounded age. My development of the weighted average age calibration complies with the standard age curve methodology and with applicable rating rules. Exhibit 9 shows the development of the age calibration factor.

All CKY plans with the exception of 45636KY0010015, 45636KY0010019, 45636KY0010023, and 45636KY0010026 are each in only one rating area, so each geographic rating factor is set to 1.000.

CKY plans 45636KY0010015, 45636KY0010019, 45636KY0010023, and 45636KY0010026 are in both rating area 4 and 8. I developed rating area factors based on Milliman HCG rating area cost and utilization

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factors and CKY's provider reimbursements for these two rating areas. Table 6 shows the rating area factors composite to 1.00.

Table 6 CareSource Kentucky Co. Rating Area 4 and 8 Composite Rating Area Factor		
Rating Area	Distribution	Rating Factor
Area 4	30.0%	1.047
Area 8	70.0%	0.980
Total	100.0%	1.000

The development of the plan-adjusted calibrated index rates are shown in Appendix C.

XVI. CONSUMER-ADJUSTED PREMIUM RATE DEVELOPMENT

The consumer-adjusted premium rate is the final premium rate for a plan charged to an individual utilizing the rating and premium adjustments as articulated in the applicable market reform rating rules. It is the product of the plan adjusted index rate, the geographic rating factor, and the age rating factor. The tobacco rating factors are 1.00 for children and between 1.08 and 1.18 for ages 21 and over.

Appendix D summarizes Appendices A, B, and C and shows a consumer adjusted premium rate calculated from the index rate.

XVII. AV METAL LEVELS

The AV Metal Values included in Worksheet 2, Section I of the URRT were developed using the CMS Actuarial Value calculator.

XVIII. AV PRICING VALUES

Appendix E provides a summary of the AV pricing values by plan, as illustrated in Worksheet 2, Section I, and a breakdown of the components attributable to each of the allowable modifiers to the index rate, as described in 45 CFR Part 156, §156.80(d)(2), to arrive at the plan level rate.

The AV and Cost Sharing factor calculation is the product of the non-normalized actuarial value and the benefit design behavior change factor from my pricing models, and a composite non-tobacco factor and is shown in Appendix F. The impact of each plan's actuarial value and cost sharing includes the expected impact of each plan's benefit design on the member's utilization of services, excluding expected differences in the morbidity of the members assumed to select the plan. I used the Milliman *HCGs* to estimate the value of cost-sharing and relative utilization of services for each plan. My pricing models assume the same demographic and risk characteristics for each plan priced, thereby excluding expected differences in the morbidity of members assumed to select the plan.

XIX. MEMBERSHIP PROJECTIONS

CKY projected membership (as displayed in Worksheet 2, Section IV of the URRT) is detailed in Section VI and in Table 1 of this memorandum.

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Methodology to Project Cost Sharing Reduction (CSR) Eligibles: CSR eligibles were projected by first estimating the breakdown by income (i.e., Federal Poverty Level – FPL) of the total individual market purchasing coverage. The proportion of members enrolling in CSR plan variation levels is based on analysis of Kentucky data in the US Census Bureau's Current Population Survey. I assumed that potential enrollees would choose the CSR plan variation for which they are eligible a majority of the time, with a higher likelihood of doing so for lower income levels.

Projected Cost Sharing Reduction (CSR) Eligibles: For the Silver level plans, I assumed a member will generally select the richest benefit plan the member qualifies for a given income level (I understand that some individuals will not select the richest subsidy for which they qualify based on personal preference, but I do not expect this impact to be material). This approach produced the distribution across the Silver level plans shown in Table 7.

Table 7 CareSource Kentucky Co. Assumed Member Distribution Across Silver Metal Tier	
Silver Plan	Assumed Member Distribution
Silver 94%	56.9%
Silver 87%	14.1%
Silver 73%	5.3%
Silver 70%	23.6%

XX. TERMINATED PRODUCTS

CKY has no terminated products.

XXI. PLAN TYPE

CKY's plans are HMO plans as noted in Worksheet 2, Section I of the URRT.

XXII. WARNING ALERTS

Plan Adjusted Index Rate and Total Premium – The Actuarial Memorandum instructions state, “the issuer must make an adjustment so that the resulting Plan Adjusted Index Rate would remove the portion of the cost that is expected to be recouped through the tobacco surcharge.” The Worksheet 2, Section IV plan values are, therefore, non-tobacco only, and are being compared to the Worksheet 1 Single Risk Pool Premium PMPM which includes the impact of tobacco surcharge.

XXIII. EFFECTIVE RATE REVIEW INFORMATION

Information is available upon request.

XXIV. RELIANCE

In preparing the Part I Unified Rate Review Template (URRT) and Part III Actuarial Memorandum, I have relied on information provided to me by the CKY management and its affiliates. To the extent that it is incomplete or inaccurate, the contents of the URRT and Actuarial Memorandum along with many of my conclusions may be materially affected.

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I performed a limited review of the data used directly in the analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of the assignment.

A data reliance letter is attached to this rate submission.

XXV. ACTUARIAL CERTIFICATION

I am a Consulting Actuary with the firm of Milliman, Inc. I am a member of the American Academy of Actuaries and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. This filing is prepared on behalf of CareSource Kentucky Co.

I certify to the best of my knowledge and judgment:

1. The projected index rate is:
 - In compliance with all applicable State and Federal Statutes and Regulations (45 CFR 156.80(d)(1)),
 - Developed in compliance with the applicable Actuarial Standards of Practice,
 - Reasonable in relation to the benefits provided and the population anticipated to be covered, and
 - Neither excessive nor deficient based on my best estimates of the 2016 individual market.
2. The index rate and only allowable modifiers as described in 45 CFR 156.80(d)(1) and 45 CFR 156.80(d)(2) were used to generate plan level rates.
3. The percent of total premium that represents essential health benefits included in Worksheet 2, Sections III and IV were calculated in accordance with actuarial standards of practice.
4. The geographic rating factors reflect only differences in the costs of delivery (e.g., unit costs, provider practice pattern differences) and do not include differences for population morbidity by geographic area.
5. The CMS Actuarial Value Calculator was used to determine the AV Metal Values shown in Worksheet 2, Section I of the Part I Unified Rate Review Template for all plans.

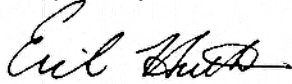
The Part I Unified Rate Review Template (URRT) does not demonstrate the process used to develop proposed premium rates. It is representative of information required by Federal regulation to be provided in support of the review of rate increases, for certification of qualified health plans for federally facilitated exchanges, and for certification that the index rate is developed in accordance with Federal regulation and used consistently and only adjusted by the allowable modifiers.

The information provided in this Actuarial Memorandum is in support of the items illustrated in the URRT and does not provide an actuarial opinion regarding the process used to develop proposed premium rates. It does certify that rates were developed in accordance with applicable regulations, as noted.

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The results are actuarial projections. Actual experience will differ for a number of reasons including, but not necessarily limited to, population changes, claims experience, and random deviations from assumptions.

Respectfully submitted,



Erik Huth, FSA, MAAA
Consulting Actuary
Milliman, Inc.


August 5, 2015
Date

ECH/vrr

Attachment

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RELIANCE LETTER



April 10, 2015

Mr. Erik Huth, FSA, MAAA
Actuary
Milliman, Inc.
15800 Bluemound Road, Suite 100
Brookfield, WI 53005-6069

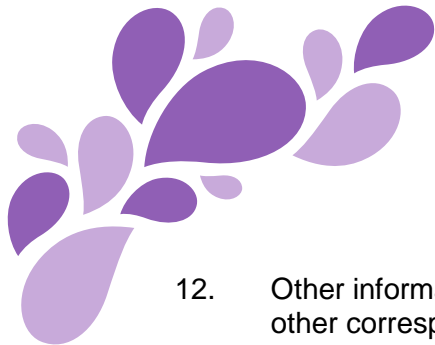
RE: CareSource's 2016 Individual Pricing

Dear Erik:

I, Scott Brockman, Director Risk Adjustment & Actuarial Science, CareSource, Inc. hereby affirm the data sources, assumptions, and information identified below and provided to Milliman, Inc. for developing CareSource's 2016 individual commercial premium rates were prepared under my direction. These items were relied upon by Milliman and are, to the best of my knowledge, accurate and complete. Finally, I affirm all information that affects the 2016 individual premium rate development has been given to you, and I have disclosed all items of which I am aware that would have a material impact on the rate projections.

The information provided includes:

1. CareSource's intent to renew all 2015 plans,
2. Benefit plans and networks CareSource offers in 2016,
3. The rating regions in each state in which CareSource offers products in 2016,
4. HIOS Product Names, Product IDs, and Plan Names for each 2016 benefit plan,
5. Historical claim experience and membership for CareSource's products and plans, including CareSource's relative Medicaid experience
6. Estimates for 2014 risk adjustment transfer and cost-sharing subsidy receipts,
7. Confirmation that the cost relativity associated with each rating area provided by CareSource does not include the impact of morbidity,
8. Projected administrative expenses and target profit margin,
9. Projected 2016 enrollment,
10. Guidance on appropriate trend assumptions,
11. Description of contractual provider reimbursement arrangements, including actual 2014 and projected 2016 provider discounts by service category, and projected coding effectiveness of providers compared to the state average.



12. Other information provided by CareSource in various meetings, phone calls, emails, and other correspondence,
13. Assurance that CareSource has completed the plan benefit template and has found no meaningful discrepancies in Actuarial Value calculations.

April 10, 2015

Date

Scott W. Brockman